

# Drivers for Participation in Corporate Social Responsibility by Commercial Banks in Kenya

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## Abstract

**Purpose:** The study sought to analyze the drivers for participation in corporate social responsibility by commercial banks in Kenya. The study was guided by the following specific objectives: to determine the factors influencing participation in corporate social responsibility by commercial banks in Kenya; to analyze the drivers for participation in corporate social responsibility by commercial banks in Kenya; to evaluate the specific CSR activities undertaken by the commercial banks in Kenya; to assess the business case for corporate social responsibility in commercial banks in Kenya; and to examine the possible recommendations that could be employed by commercial banks to enhance effectiveness of the CSR activities they undertake. **Methodology:** A descriptive survey was undertaken, focusing on all the commercial banks registered and licensed to undertake commercial banking business in Kenya, whose number stood at 45 as at December, 2008. The respondent from each of the commercial banks was the Chief Executive Officer. A representative sample of 27 commercial banks, representing about 60 per cent of the whole population was selected to participate in the study. Primary data was collected with the aid of a semi-structured questionnaire that was administered by hand delivery. Data pertaining to the profile of respondents was analyzed by employing content analysis while data pertaining to the objectives of the study was analyzed by employing descriptive statistics. Statistical Package for Social Sciences was used in the analysis. Computation of frequencies in tables, charts and bar graphs, mean scores and standard deviations were used in data presentation. **Findings:** The key findings of the study indicate that the factors influencing participation in corporate social responsibility by commercial banks in Kenya can be categorized into four - economic factors, legal factor, ethical factors and philanthropic factors.

**Keywords:** Corporate social responsibility; Commercial banks.

## ABBREVIATIONS

CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CSP	Corporate Performance Model
CSR	Corporate social responsibility
DJSI	Dow Jones World Index
MSCI	Morgan Stanley Capital International
SAM	Sustainable Assessment Management
SPSS	Statistical Package for Social Sciences
USD	United States Dollars
WEF	World Economic Forum

## 1.0 INTRODUCTION

### 1.1 Background of the Study

There is growing recognition of the significant effect the activities of the private sector have - on employees, customers, communities, the environment, competitors, business partners, investors, shareholders, governments and others (Ackerman, 2003). Richardson *et al* (2003) noted that it is also becoming increasingly clear that firms can contribute to their own wealth and to overall societal wealth by considering the effect they have on the world at large when making decisions. Investors and financial markets are beginning to see that Corporate social responsibility (CSR) activities that integrate broader societal concerns into business strategy and performance are evidence of good management. In addition to building trust with the community and giving firms an edge in attracting good customers and employees, acting responsibly towards workers and others in society can help build value for firms and their shareholders (Crook, 2005).

CSR is defined as categories of economic, legal, ethical and discretionary activities of a business entity as adapted to contribute to the values and expectations of society (Joyner & Raibom, 2002). CSR is also the continuing commitments by any business organization whereby they emphasize the ethical elements in their management and overall organizational structure (Richardson *et al*, 2003). At the same time, companies are responsible for national economic development by improving the quality of life of the whole workforce and their families as well (Abbott & Monsen, 2002).

CSR involves various aspects such as economic factors, legal requirements, ethical orders and discretionary demands. In this high-tech era, business environments are susceptible to changes in these factors.

CSR shows what the company has done to fulfill its corporate duty to ensure the firm is not only good in providing the service but also plays its roles by contributing something to the community (Tilt, 2004). In order to have a good relationship with the community, the firm should do something beneficial for the community. Within the company itself, there is also a platform for social contribution especially to the employees.

Many organizations may have different motives to adopt the concept of CSR and these may range from meeting basic legal requirements meant to regulate destructive business activities, to the consideration of CSR as a tool for increased productivity and improved financial performance. Today, not only legal requirements can be seen as determinants of a company's CSR activities according to Fax (2004), instead stakeholder expectations may also be something that may determine the way organizations deal with CSR. In 1995, a study showed that next to the quality of products, corporate responsibility was the second most important factor in a company's reputation (Henderson, 2000). Subsequently more and more companies seem to recognize that corporate responsibility is not only morally right, but that it makes good business sense whereby management of various firms has recognized that CSR as a business component yields tangible benefits.

Today, CSR has become a vital part of the strategies of financial institutions of all sizes and can be an important strategy for commercial banks as they seek to demonstrate their commitment to the communities they serve. Some banks have demonstrated their willingness to work with their stakeholders through innovative CSR activities. The banking sector in Kenya has not been left behind as it has taken a leading role in this trend as they consider CSR as one of the avenues that may help the bank to compete in the market as the tool may help the bank attract and retain its customers. Based on this idea, the present study aims to investigate the factors influencing participation in corporate social responsibility by commercial banks in Kenya.

## 1.2 Statement of the Problem

Contrary to the classic view that confines business objectives to profit maximizing only limited by legal margins, a broader concept of Social Responsibility has gradually been imposed that incorporates an ethical approach to the legitimacy of the company that goes beyond complying with legislation and securing profits (Carroll, 2000). As a result of a growing involvement of ethics in the business world, traditional objectives of profit securing and shareholder satisfaction are being complemented by others related to respect for the environment and human rights that, along with philanthropic activities, make up the core of Corporate Social Responsibility.

This responsibility signifies the integration of this set of concerns into the company's activities and strategies, which has brought with it a growing generalization of formal ethical commitments through codes of conduct, social audits, and adhesions to international undertakings, ethical committees, and publication of social and environmental reports and so on (Harrison and Freeman, 1999). According to Mattel *et al* (2003), in many ways companies have assumed new roles, which have even led them to administer citizenship rights for individuals, since the corporation is not a citizen in itself (as individuals are) and toward the acknowledgement that the corporation administers certain aspects of citizenship for other constituencies. Today, managers are increasingly being aware of the importance of acting as good corporate citizens, as many studies indicate that CSR has a positive effect on company performance (Gillis & Spring 2001). A critical view of CSR emphasizes the need to consider underlying motivations for business to embrace and perpetuate the CSR concept.

Despite this, from a scientific perspective, CSR analysis is still insufficiently developed and requires a better conceptual configuration and improved levels of knowledge in relation to the factors influencing participation in corporate social responsibility by organizations, the manner and degree to which these organizational actions affect CSR overall (Reich, 1998). Whereas many studies have been conducted in the area of CSR, mainly focusing on the activities involved and their benefits to such stakeholders as the consumers, employees and society in general, little is known about the factors influencing participation in corporate social responsibility. The purpose of the current study was to investigate the factors influencing participation in corporate social responsibility by commercial banks in Kenya. The findings of the study will thus be a milestone in attempting to fill this knowledge gap.

## 1.3 Objectives of the Study

### *General Objective*

The study sought to analyze the drivers for participation in corporate social responsibility by commercial banks in Kenya.

### *Specific Objectives*

The study was guided by the following specific objectives:

- (i) To analyze the drivers for participation in corporate social responsibility by commercial banks in Kenya.
- (ii) To evaluate the specific CSR activities undertaken by the commercial banks in Kenya.
- (iii) To assess the business case for corporate social responsibility in commercial banks in Kenya
- (iv) To examine the possible recommendations that could be employed by commercial banks to enhance effectiveness of the CSR activities they undertake.

## 1.4 Definition of Key Terms

The following is the definition of the various terms used in this study:

*Bank*: A bank can be defined as a company, which carries on, or purposes to carry on banking business. A bank is thus an institution that deals largely with money. It collects deposits from savers and pays interest to the depositors and on the other hand uses the savers deposits to grant loans to borrowers who in turn pay interest and fees (Banking Act (Cap 488) pp 6, 10-12).

*Corporate social responsibility* - is concerned with treating the stakeholders of the firm ethically or in a responsible manner. Ethically or responsible means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside - the natural environment is a stakeholder for example. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation (Clarkson, 2001).

*Corporate citizenship* - Corporate citizen implies a strategy that moves from a focus on short-term transaction to longer term, values-based relationships with these stakeholders. Loyalty will be based on a company's ability to build a sense of shared values and mission with key stakeholders (Crook, 2005).

*A socially responsible company* - will seek and identify the concerns of its stakeholders and endeavor to treat those stakeholders fairly (Ortzky *et al*, 2003).

*Corporate social responsiveness* - is the management task of doing what one has decided to do so as to become socially responsible (Ackerman, 2003).

*Corporate governance* - is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society" (Clarkson, 2001).

*Sustainable development* - Environmental impact measurement, improvements, monitoring and reporting (Friedman, 1998).

## 2.0 LITERATURE REVIEW

### 2.1 Introduction

This chapter presents a review of the literature related to the purpose of the study. The chapter is organized according to the specific objectives in order to ensure relevance to the research problem. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books, thesis and dissertations.

### 2.2 Theoretical Orientation

CSR has been viewed as a developed-country phenomenon and a large body of literature on the social performance of firms in developed countries has emerged. However, literature on the theory and practice on CSR in the developing countries is quite limited (Belal, 2000). The literature below will provide an overview of different approaches on how to define the concept of CSR and what areas the concept covers. Since the diffusion regarding the description of CSR is vast, the theories and literature presented are viewed as some of the most commonly appearing approaches on CSR. The following are some of the theories that are relevant to this study and form the theoretical framework of the study:

*Carroll's Pyramid of CSR*: Carroll's "pyramid of corporate social responsibility" provides the description by means of a pyramid that depicts the economic category at the base and then builds upwards through legal, ethical and philanthropic categories (Carroll, 1991). This definition encompasses the economic, legal, ethical and discretionary expectations that the society has of organizations at a point in time.

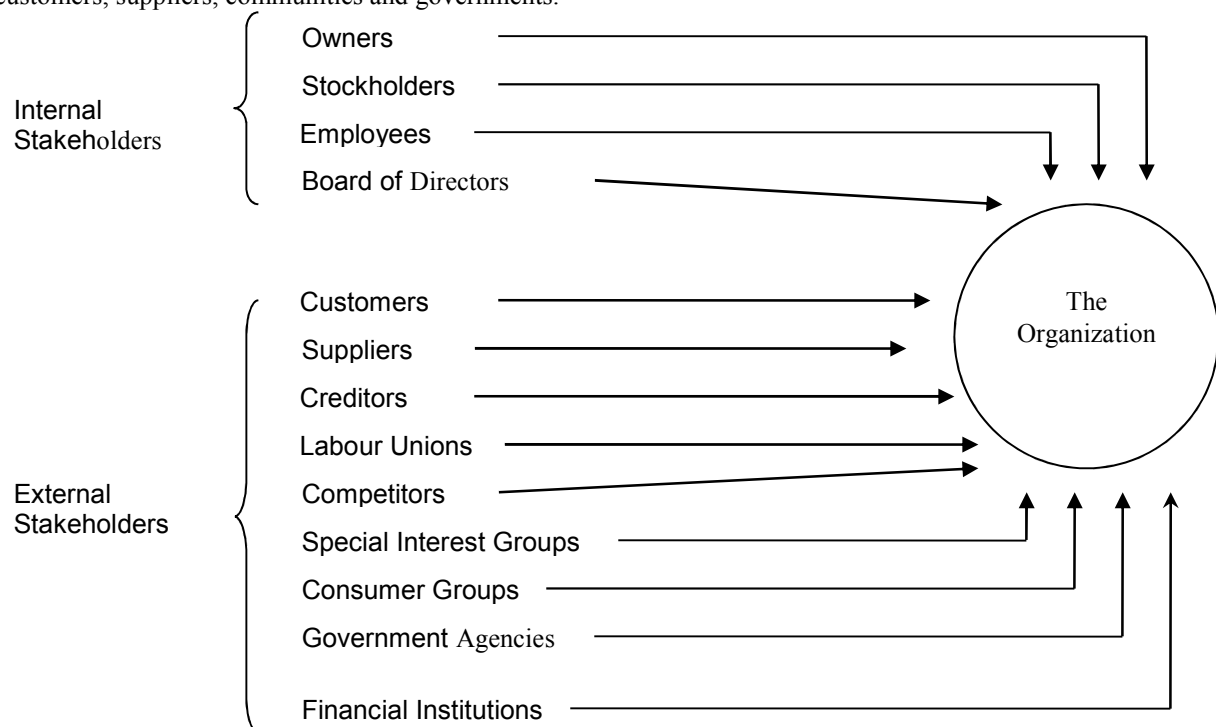
*Corporate Performance Model (CSP)*: The Corporate Social Performance model was extended by Wood (1991) and it focuses attention on outcomes and not interaction and integration. The model consists of three interacting elements in the form of principles of CSR, processes of corporate social responsiveness and outcomes of corporate behavior. The principles of CSR operate at three levels; institutional, organizational and individual levels. The model embraces an understanding that everything a company does has some flow-on effect either inside or outside the company, from customers and employees to communities and the natural environment.

*Stockholder Theory (Theory of Maximized Profits)*: The stockholder view of social responsibility is the traditional perspective. It holds that business firms are responsible only to their owners and stockholders. The aim of managers is therefore to satisfy the financial interests of the stockholders. By so doing, says the stockholder view, the interests of society will be served in the long run. According to this perspective, CSR is therefore a by-product of profit seeking. The theory dictates that companies, as business set up should take optimal profit making for shareholders as their most fundamental objective. The realization of the benefits of any other concerned interest parties who are under the influence of the company's behaviors should not be

deemed as the corporate objective. The late Milton Friedman, an eminent critic of CSR once argued that “in a free enterprise, private-property system, a corporate executive is an employee of the owners of the business and he has direct responsibility to his employers”. The responsibility is to make as much money as possible while conforming to the basic rules of the society. This may have contributed to free market thinkers who have argued that corporations have no role in society besides making profit while producing goods and services of highest quality.

*Legitimacy Theory:* The legitimacy theory as described by Suchman (1995) is defined as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions”. The theory attempts to explain how organizations endure in a changing society and more specifically suggests that financial performance and efficiency may be necessary, but not sufficient conditions for organizations to reach the objective of survival. Lindblom (1994) states that organizations are perceived to be legitimate when their goals, methods of operation, and outcomes are congruent with the expectations of those who confer legitimacy. There is therefore need to examine any particular corporate behavior within its context and in particular to look for alternative motivations. Thus legitimacy might be seen as a key reason for undertaking corporate social behavior and also then using that activity as a form of publicity or influence.

*Shareholder Theory:* The Shareholder theory, which McWilliams (2001) called “the dominant paradigm in CSR”, originated in response to Friedman’s stockholder theory. It is one of the most accepted theories within business ethics. The stakeholder approach begins by analyzing various groups towards which the company is responsible for. The theory claims that organizations are not supposed to manage only on the basis of their shareholders interests, but have to take into consideration various other stakeholders that have a “legitimate interest” in the company. Freeman, defined stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objective,” specifically enumerating six: owners, employees, customers, suppliers, communities and governments.”

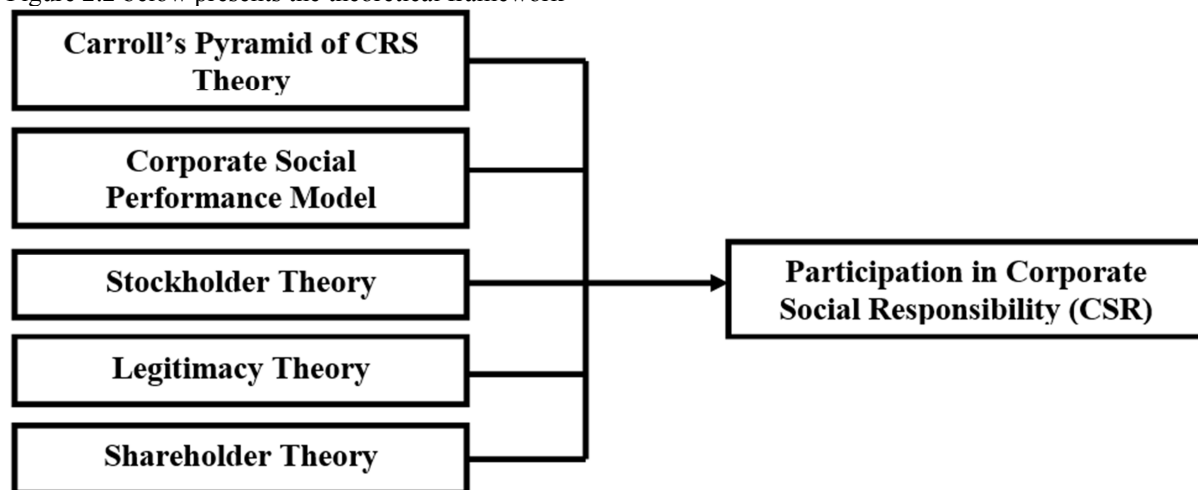


**Figure 2.1: The shareholder view point of social responsibility**

Source: Handy (2002), Harvard Business Review.

### ***Theoretical Framework***

Figure 2.2 below presents the theoretical framework



**Figure 2.2: Theoretical Framework**

### **2.3 Empirical Review**

There is currently a debate on the extent to which company directors and managers should consider social and environmental factors in commercial decision making. An approach to decision making that routinely encompasses these factors may be described as corporate social responsibility. A view is emerging that corporate social responsibility can contribute to the financial performance of a company. This approach, which has been described as the ‘enlightened shareholder approach’, suggests that corporate decision-makers must consider a range of social and environmental matters if they are to maximize long-term financial returns. While there is no universally accepted definition of corporate social responsibility, it is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities (PJC, 2006). The notion of corporate social responsibility as a part of the core business operations of a company, rather than a separate ‘add on’, distinguishes it from corporate philanthropy which may be funded out of operations that are damaging to the communities in which business is conducted.

#### ***Economic drivers for corporate social responsibility***

Drawing on the experiences of those companies that have adopted corporate social responsibility, commentators have identified several ways in which this approach to business decision-making may lead to improved financial performance.

The following ‘economic drivers’ have been identified by the World Economic Forum and Business in the Community as explaining the voluntary adoption of corporate social responsibility by companies across the world (ADL 2003). It is suggested that these drivers do not operate in isolation, and that different companies may have different drivers. Various drivers may also be stronger in different sectors and for different companies. A move to adopt corporate social responsibility may arise from a combination of drivers.

*Employee recruitment, motivation and retention:* Recent surveys indicate that corporate social responsibility is increasingly an important factor in attracting and retaining a talented and diverse workforce (Globescan Inc 2005). Companies that account for the interests of their employees by offering good working conditions will achieve better performance in terms of quality and delivery, and, therefore, experience higher levels of productivity.

*Learning and innovation:* Learning and innovation are critical to the long-term survival of any business. Corporate social responsibility can be a vehicle for business to respond to environmental and societal risks and turn these into business opportunities.

*Reputation management:* Companies operate in a market of opinion. How companies are judged by customers, suppliers and the broader community will have an impact on their profitability and success. Corporate social responsibility offers a means by which companies can manage and influence the attitudes and perceptions of their stakeholders, building their trust and enabling the benefits of positive relationships to deliver business advantage.

*Risk profile and risk management:* Corporate social responsibility offers more effective management of risk, helping companies to reduce avoidable losses, identify new emerging issues and use positions of leadership as a means to gain competitive advantage.

*Competitiveness and market positioning:* Corporate social responsibility branding can draw consumers away



from competitors and thereby improve profitability.

*Operational efficiency:* Corporate social responsibility can offer opportunities to reduce present and future costs to the business thereby increasing operational efficiency.

*Investor relations and access to capital:* The investment community is increasingly viewing corporate social responsibility as akin to long-term risk management and good governance practices. Recent surveys indicate that analysts place as much importance on corporate reputation as they do on financial performance (Hill & Knowlton, 2006).

*License to operate:* Companies that fail to manage their responsibilities to society as a whole risk losing their license to operate - a concept whereby a company's stakeholders grant the company an unwritten authority to do business. This may be evidenced by favoring competitors, boycotts or calls for deregistration.

### ***Other factors influencing involvement in Corporate Social Responsibility***

The primary role of business is to produce goods and services that society wants and needs. According to Di Norcia & Tigner (2000), a business only contributes fully to a society if it is highly efficient, highly profitable and has socially responsible agendas. Based on the literatures definition of CSR, CSR behaviors are not constant over time or space. Social expectations and pressure for specific types of CSR have varied over time and are contingent on the nature of the company (Richardson *et al*, 2003). A study by Windsor showed that social responsibility is achieved when the corporation conforms to the prevailing norms and expectations of social performance in a given society (Windsor, 2001).

Since CSR behaviors are charitable and discretionary, the likelihood that a specific company will engage in CSR will also depend on the characteristics of the business and management. According to Richardson *et al* (2003), a company may decide to take a proactive attitude on an ethical issue in the absence of specific pressures for that company to act, more specifically it is voluntary. On the other hand, it is possible for businesses with publicly known CSR related problems to take no action with regard to these problems. A firm or organizations size might be associated with the level of social involvement. A study by Smith found that heavy manufacturing companies involved in smelting and chemical production are more closely monitored for environmental performance than companies in other industries (Smith & Alcom, 2000). This is due to the fact that heavy manufacturing companies are perceived to be more harmful to the environment and natural habitats.

Furthermore, a causal effect exists between business size and industry on the amount of social disclosure (Tilt, 2004). This interaction indicates that the size effect is most obvious in sensitive industries. For example, large firms in the oil and gas industry are more likely to undertake CSR behaviors than small firms in that industry. However, no size effects are apparent in low impact industries such as retailing or financial services. Windsor also compared small and larger organizations and the results showed that smaller business seemed to better understand the issues of corporate social responsibility than larger companies (Windsor, 2001). They also identified the different internal and external factors that would cause inconsistency in the ethical behavior of small and large businesses. On the contrary, a study by Thompson and Smith revealed that small businesses have not been encouraged to overlook social activism and to concentrate instead on avoiding irresponsible behavior (Thompson & Smith, 2001).

According to Windsor, business leaders are starting to acknowledge some of the market benefits and competitive advantages for companies who put into place a comprehensive CSR policy (Ogriek, 2002). This means that a business with a strong stance in corporate responsibility will attract top talent and reputation. However, most of the respondents in a study by Thompson and Smith, did not agree that business leaders who have too much social power should not engage in social activities that might increase their social power. It shows that the political power that they possess might have a direct relationship with the companies' social agendas.

Profitability or financial performance also has an influence on CSR. A study by Cochran and Wood, found that within industry groups, the financial variable that most strongly correlated with CSR is asset age and that omission of this variable results in a spurious correlation of CSR and financial performance. In other words, firms with older assets have lower CSR ratings. Aupperle, Can-oil and Hatfield, tested the association between social involvement and profitability and reported it as a positive correlation. Meanwhile Abbott & Monsen (2002) stated that there is no conclusive evidence that there is a clear linkage in any direction between corporate social activities and profitability which in their research, for example, appears convincing that CSR is inversely linked with profitability in the short run.

### ***The Business case for Corporate Social Responsibility***

The two basic arguments for CSR can be termed the "normative case" and the "business case." Although there is a clear difference between social performance stemming from a desire to do good (the normative case) and social performance that reflects an enlightened self-interest (the business case), a firm's reasons for engaging in CSR might reflect a mixture of these motivations. Thus, both warrant discussion, but for reasons addressed

immediately below, this chapter of the Social Performance Map will focus most of its attention on the business case for CSR (Orlitzky, *et al*, 2003).

Evidence from dozens of empirical studies of private sector firms and investment markets points conclusively to a positive association (or at worst a neutral association) between social performance and financial performance. Although this evidence is drawn from the private sector, the explanations underlying the associations are general enough that there is no reason to believe that the same or similar associations will not exist in the microfinance sector as well, particularly as the sector increasingly takes on the business models and trappings of the commercial financial sector (Margolis & Walsh, 2001).

Even with what appears to be strong empirical evidence indicating a positive relationship between social performance and financial performance, specific examples from the microfinance sector are valuable. This section's annex presents a series of cases that document the benefits and costs to microfinance institutions of assessing and managing their social performance. The World Economic Forum's (WEF) interviews with CEOs, CFOs, and Investment Relationship Officers (IROs) provide further insight into the factors driving the positive association between social performance and financial performance (Gary Woller, 2004).

*Protecting and enhancing reputation, brand equity, and trust:* According to the survey carried out by SAM Sustainable Assessment Management, 73% of companies analyzed said that reputation enhancement was one of the primary benefits of CSR.<sup>18</sup> The BT Group, which collects monthly data from thousands of companies in the United Kingdom, has developed a metric showing that CSR activities account for around 25% of the dimensions that drive customer satisfaction of firm reputation (Zollinger *et al*, 2002).

*Attracting, motivating, and retaining talent:* According to Hale (2002), nearly two-thirds of the companies surveyed by SAM Sustainable Assessment Management mentioned talent attraction as a principal value driver for their CSR activities. More so than in the past, job seekers are interested in the organizational values and the approach firms take to corporate citizenship and corporate responsibility. Respondents also mentioned that CSR plays a role in employee retention and motivation.

*Managing and mitigating risk:* In the advent of globalization, markets are growing more complex and companies are facing a number of nontraditional risks. Good management strategies must take this whole gamut of risks into consideration; CSR offers firms a useful framework in which to assess and manage those risks (Dowell *et al*, 2000).

*Improving operational and cost efficiency:* Many companies, particularly those operating in Asia, Japan, and Latin America - cite operational efficiency as the greatest value added to CSR activities. According to one respondent, "Sustainability for us - and for our customers - means saving energy, optimizing use of natural resources, [and] lowering environmental impact and hazardous waste. Add to this playing a positive contributing role wherever we do business, so we're welcomed by the communities where we operate, as an attractive employer and a sound investment." CSR activities also result in cost savings in the form of, for example, reduced staff turnover, lower insurance premiums, fewer fines and penalties, and less litigation (Camejo, 2002).

*Ensuring license to operate:* In the SAM survey, 55% of respondents cited "maintenance of the license to operate" as a key factor in their CSR activities. The regulatory and social licenses to operate are particularly important for firms that work closely with government, operate in a highly regulated industry, or leave a large footprint on host countries or communities (Abramson and Chung, 2000).

*Developing new business opportunities:* Companies interviewed by the WEF cited four key business opportunities that they believed were linked closely to CSR activities: (1) development of environmental technologies, products, and services; (2) production of new products and services to meet consumer demand for more healthy lifestyles; (3) provision of affordable goods and services to poorer consumers, especially in developing countries; and (4) creation of new market mechanisms, such as carbon trading (Pava & Krausz, 1995).

*Building stable and prosperous operating environments:* CEOs responding to the WEF survey stressed the interrelationship between CSR and long-term financial performance. This occurs because broad social development will effectively be able to expand the current market boundaries that companies in emerging markets face, therefore increasing the size of the pie in the long term (Woller, 2004).

### **Previous research**

There have been a number of studies based on United States and European data that seek to test the extent to which the economic drivers for corporate social responsibility deliver improved financial performance. The studies adopt different methodologies for measuring corporate social responsibility and financial performance, and not unexpectedly present quite different results. A notable source is a meta analysis undertaken by Orlitzky *et al* (2003), who integrated 30 years of research from 52 previous studies and used meta analytical techniques to support the proposition that corporate social performance and corporate financial performance are positively correlated and statistically significant. Interestingly, the meta analysis found a higher correlation between financial performance and a company's management of its social impact than between financial performance and

a company's management of its environmental performance.

Studies by investment analysts and funds managers on the performance of socially responsible investment fund products and sustainability indices are also regularly reported in order to attract investors and encourage participation. For example, in 2005 AMP Capital Investors published an analysis of the corporate social responsibility rating technique it uses to manage its Sustainable Future Australian Share Fund. By applying its rating technique to the approximately 300 listed Australian companies and analyzing their financial performance from a 10 year period, it determined that companies with a higher corporate social responsibility rating outperformed companies with a lower corporate social responsibility rating by more than 3.0 per cent per annum over a 4 and 10 year period (Rey and Nguyen 2005).

Similarly, in 2003 the Dow Jones Sustainability Indexes (DJSI), which includes over 300 companies from 22 countries that lead their industries in terms of corporate sustainability, reported that, compared with the previous year, the DJSI World Index outperformed the mainstream market. During this period, the DJSI World Index increased by 23.1 per cent, whereas the mainstream indices, the Dow Jones World Index and the Morgan Stanley Capital International (MSCI) World Index, increased by 22.7 per cent and 21.2 per cent, respectively (in USD) (SAM Indexes GmbH 2003).

### **Research Gaps**

According to Wood and Jones (2005), the scope of CSR is much broader than charitable activities, philanthropy and community involvement. It embraces business practices, including environmental management systems, human resource policy and strategic investment for a sustainable future. Wood & Jones also state that CSR is all about competing beyond technology, quality improvement, service reliability and competitive pricing. There is need to undertake studies to ascertain the actual scope of CSR.

Meanwhile Wood & Jones associate corporate leadership with CSR, citing leadership and support of publicly important issues such as education, resource conservation, community services, improvement of industry and business practice and the sharing of nonproprietary quality-related information. They mentioned that majority of the entrepreneurs felt responsible to their communities, employees, customers, and other stakeholders. These firms may undertake many things such as supporting the arts, helping local schools find funding, contributing to local festivals and providing food and supplies in order to fulfill their CSR. Also, to ensure CSR has been fulfilled by a firm, a lot of programs that has been organized by a firm were related to environmental quality and pollution control (Wood & Jones, 2005). This presents an opportunity to investigate the ethical issue of investor and rational economic investor.

This paper provides an excellent opportunity to continue the task of disseminating CSR as a tool for development. The findings from literature review point out to the private sector that putting CSR into practice is not a question of image, nor even because it is morally correct; it makes good business sense. The moment has arrived for passing from 'words to deeds' in order to measure and demonstrate positive effects across the board. The findings of the study reaffirms that responsible business practice is needed to improve the quality of life in our countries. A responsible private sector is the driver of sustainable economic and social development in the developing countries.

The review of literature has offered a preliminary investigation into the definition of and factors influencing participation in corporate social responsibility. It is suggested that CSR can mean different things to different people, although as a relatively narrow definition, CSR can be interpreted as a modern day manifestation of the notion of philanthropy. The consensus appears to converge upon service to others and a degree of organizational benevolence.

Nevertheless, the literature reveals contradictory interpretations regarding what CSR is and what it involves. The first of these was connected with a selection of alternative terms, such as public responsibility or corporate citizenship. The second ambiguity stems from the reference to an organization's responsibility to society, although the scope of this responsibility is not clear, leading to the question of to who should an organization be responsible. It seems that the CSR literature appears to prioritize responsibility towards the local community, including the welfare of employees, as opposed to the organization's responsibilities to a wider society. A current debate asks whether governments should prescribe CSR or whether it should remain optional.

## **2.4 Conceptualization**

Carroll's model for CSR provides a useful mechanism for investigating factors influencing participation in CSR activities by the banking sector and has been adopted as the basis for conceptualization of CSR for this study basing the concept on the four part model encompassing the economic responsibility, the legal responsibility, the ethical responsibility and the philanthropic responsibility of an enterprise.

### **Layers of Responsibility**

Carroll (1991) organized different corporate social responsibility into a four-layered pyramid model, called the



pyramid of responsibilities. The pyramid is constructed in such a way that one kind of responsibility cannot be achieved if another responsibility located beneath it in the pyramid model is absent. Carroll reiterates that the pyramid of responsibilities has a global reach (CSRQuest, 2006). The base of the pyramid denotes the economic aspect of the organization has a responsibility to fulfill all economic obligations towards all stakeholders and not only the shareholders whereby employees believe in having a non-discriminatory work environment, consumers believe in receiving good quality products etc.

Clarke (1984) suggested that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore these four categories or components of CSR might be depicted as a pyramid. To be sure all of these kinds of responsibilities have always existed to some extent but it has only been in recent years that ethical and philanthropic functions have taken a significant place. Each of these four categories deserves closer consideration.

*Economic Responsibilities:* Historically, business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. Before it was anything else, business organization was the basic economic unit in our society. As such, its principal role was to produce goods and services that consumers needed and wanted and to make an acceptable profit in the process. At some point the idea of the profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations (Clarke, 1984).

*Legal Responsibilities:* Society has not only sanctioned business to operate according to the profit motive; at the same time business is expected to comply with the laws and regulations promulgated by federal, state, and local governments as the ground rules under which business must operate. As a partial fulfillment of the "social contract" between business and society firms are expected to pursue their economic missions within the framework of the law. Legal responsibilities reflect a view of "codified ethics" in the sense that they embody basic notions of fair operations as established by our lawmakers. They are depicted as the next layer on the pyramid to portray their historical development, but they are appropriately seen as coexisting with economic responsibilities as fundamental precepts of the free enterprise system (Clarke, 1984).

*Ethical Responsibilities:* Clarke (1984) argues that although economic and legal responsibilities embody ethical norms about fairness and justice, ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law. Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights.

In one sense, changing values precede the establishment of law because they become the driving force behind the very creation of laws or regulations. For example, the environmental, civil rights, and consumer movements reflected basic alterations in societal values and thus may be seen as ethical bellwethers foreshadowing and resulting in the later legislation. In another sense, ethical responsibilities may be seen as embracing newly emerging values and norms society expects business to meet, even though such values and norms may reflect a higher standard of performance than that currently required by law. Ethical responsibilities in this sense are often ill-defined or continually under public debate as to their legitimacy, and thus are frequently difficult for business to deal with (Clarke, 1984).

*Philanthropic Responsibilities:* Philanthropy encompasses those corporate actions that are in response to society's expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill. Examples of philanthropy include business contributions to financial resources or executive time, such as contributions to the arts, education, or the community. A loaned-executive program that provides leadership for a community's United Way campaign is one illustration of philanthropy (Clarke, 1984).

### **Business Ethics**

Ethics is the study of what is right and what is wrong. Business ethics is therefore the study of these factors in business where the ethical managers should strive to act "right" and do good things while avoiding the "evil" things such as protection of life, fairness, obedience to law and holding honesty in the organization's dealings. A purpose of having a clear view of ethical values in an organization is that it can work as a mechanism which can control employees' behavior and the strongest forces that affect different code of conducts are viewed as leadership, strategies and policies, organization culture and individual characteristics (Steiner & Steiner, 2005). According to Bernstein (2004), CSR benefits both the company and the community and the study will endeavor to find out the factors that motivate participation of the banking sector in CSR activities. The framework will view social responsibility actions that improve the welfare of interest groups who can affect firm value and different CSR activities are therefore designed for specific groups. It should be noted that firms have to adopt the strategies based on their locality and the stakeholders they serve and the two dimensions are that CSR could

be profit motivated or it may be driven by non-financial considerations. The dimension of CSR has four distinct areas of coverage and these are:-

*The market place:* This encompasses the impact on society or core products and services; issues around buying and selling, supply chain, vulnerable customers and cause related marketing.

*Workplace:* This means ensuring that employee welfare and rights are catered for and respected and that the workplace is human taking into account the workforce diversity, work-life balance, health and safety, human rights and training and lifelong learning

*Environment:* This means the company should consider its direct and indirect impacts on living and non-living natural systems focusing on emissions to air, land and water, use of natural resources, environment risk, transport impacts and the impact on environment of core products and services.

*Community:* All businesses have an impact (positive or negative) on the communities in which they operate and if managed well, this impact can bring significant benefits to both the community and the businesses concerned. Andriof & McIntosh (2001) argue that firms that are truly socially responsible step up to their obligations in the four different areas stipulated above by trying to improve the conditions and behave appropriately in each area. Firms can do this by developing programs, as well as by monitoring, and changing the effects of their operations within each of the four areas. Figure 2.3 presents the conceptual framework for the study.

### Conceptual Framework

The conceptual framework is presented in figure 2.3 below.

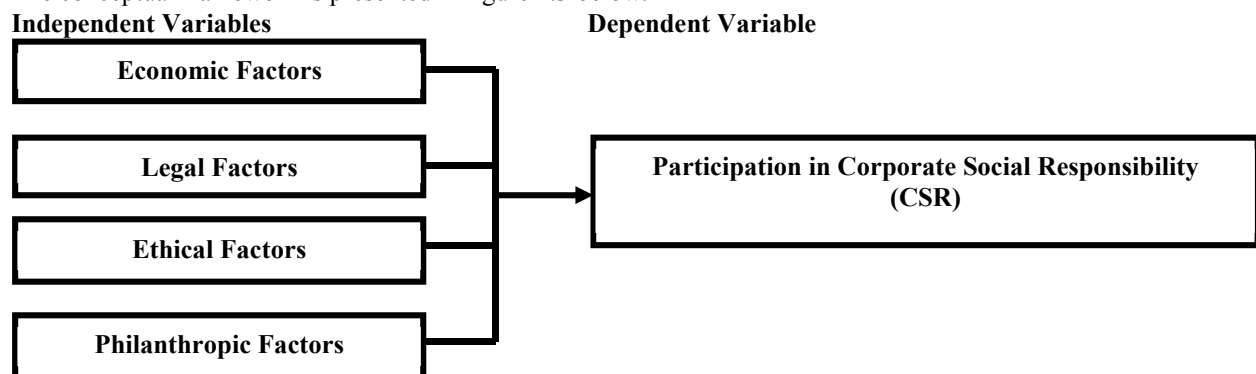


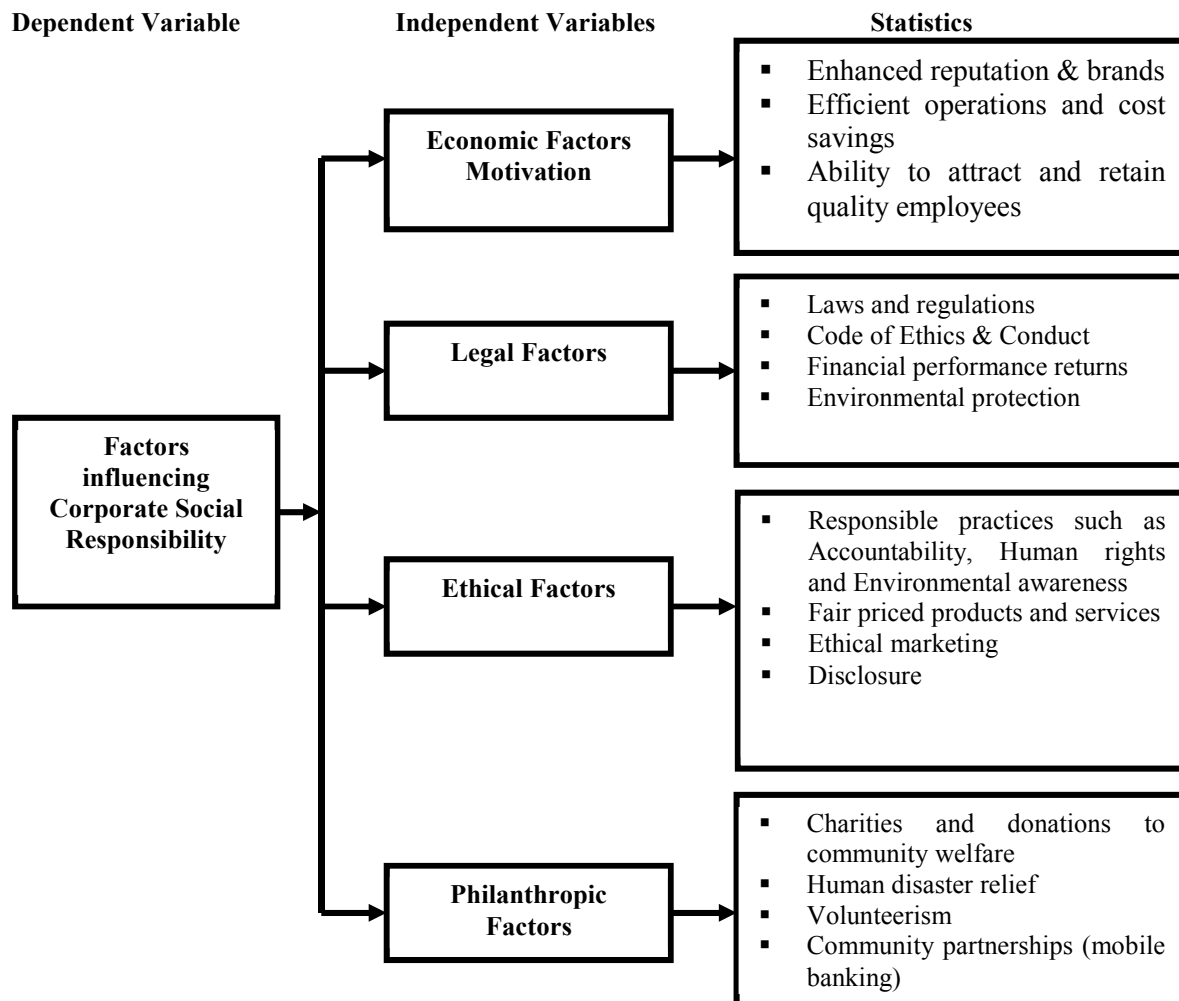
Figure 2.3: Conceptual Framework

## 2.5 Operationalization

This section of the study outlined the various factors influencing participation in corporate social responsibility in organizations, which are also applicable to the commercial banks. The various influencing factors lead to activities being undertaken, leading to adoption of different tactics that may be used in measuring the organisations' orientation towards each factor. Figure 2.4 below presents the operational framework of the current study.

### Operational Framework

The operational framework is presented in figure 2.4 below.



**Figure 2.4: Operational framework**

### 3.0 METHODS

#### 3.1 Introduction

This chapter aims at defining the research design and methodology used in the study. It contains a description of the study design, target population, sample design and size, data collection instruments and procedure, data analysis and reporting, limitations of the study and ethical issues. The chapter also presents ethical issues, expected outcome, references, schedule of research activities, the research budget and the appendices.

#### 3.2 Research Design

Research design provides the glue that holds the research project together (Brown, *et al.*, 2003). A design is used to structure the research, to show how all of the major parts of the project, which include the samples or groups, measures, treatments or programs, and methods of assignment that work together to try to address the central research questions. A descriptive survey was undertaken. The method was preferred as it permits gathering of data from the respondents in natural settings. Descriptive designs result in a description of the data, whether in words, pictures, charts, or tables, and whether the data analysis shows statistical relationships or is merely descriptive. “What” questions invariably lead to descriptive designs. Descriptive research is designed to describe the characteristics or behaviors of a particular population in a systematic and accurate fashion. Survey research uses questionnaires and interviews to collect information about people’s attitudes, beliefs, feelings, behaviors, and lifestyles.

Descriptive design was preferred because no matter what method is chosen to collect the data, all descriptive designs have one thing in common: they must provide descriptions of the variables in order to answer the question. One of the most useful methods of numeric analysis available is statistics and this study shall use this method to describe and make inferences about measurable characteristics of a large group based on measurements from the representative sample of the population. In particular, frequency distribution will be used in this study to intend to show the distribution (or the count) for each business entity to clearly spell out to

what extent each of the various factors influences that particular company's social responsiveness activities.

### 3.3 Sampling Design

#### *Study Population*

The population from which the study was carried out was all the commercial banks registered and licensed to undertake commercial banking business in Kenya, whose number stood at 45 as at December, 2008 (CBK, 2008). The respondent from each of the commercial banks was the Chief Executive Officer (CEO), who is charged with the responsibility of shaping the strategic direction of the his/her respective organization. In the absence of the CEO, the appointed agent participated in the study. It would have been desirable to use a census of the whole population of the commercial banks in Kenya, but owing to such limitations as the distances to be covered to each commercial bank, which are spread in the City Centre and its environs and the costs that would be involved in covering them and the given time frame among other reasons, a representative sample of 27 Commercial banks, representing about 60 per cent of the whole population was selected using stratified sampling, which is within the limits of the generally accepted statistical condition. In each of the banks, the CEO was selected as the respondent.

Stratified random sampling technique was employed to select the respondent commercial banks based on Peer classification as per The Banking Survey Kenya 2008 publication, which classified the commercial banks into three categories. According to Coleman and Briggs (2004) stratified sampling is used where there might be a reason to judge that some particular characteristic of the sample members is of such importance that it is necessary to impose further control over how it is distributed or represented in the sample. This procedure is considered effective as each bank had a non zero chance of being included in the study.

#### *Sampling Procedures*

A two-stage stratified random sampling was used to select the sample. Firstly, the sampling frame, a listing of all the commercial banks in Kenya was obtained from the Central Bank of Kenya. The various commercial banks were then categorized according to the peer classification as per The Banking Survey Kenya 2008 publication, which classified the commercial banks into three categories. In each category, each company was assigned a random number and 60% of the companies picked at random. Table 3.1 below presents the sample size.

**Table 3.1: Sample Size**

No.	Strata (Peer classification of Commercial Banks)	Population size (Number of commercial banks)	Sample size (60% of the population)
1	Tier I	14	8
2	Tier II	16	10
3	Tier III	15	9
Total		45	27

### 3.4 Data Collection

#### *Data collection Method and Techniques*

Both secondary and primary data were collected. Desk study was undertaken, in which a review of the relevant literature was carried out. Information pertaining to CSR was critically reviewed. The sources of information included various websites, books, magazines, Journals and available reports from the various credible sources. The desk study enabled this research to be grounded in the current literature relating to participation in CSR by the Commercial banks in Kenya. This development ensured that the research does not duplicate other studies, and instead make a significant contribution toward the subject of study.

Primary data was collected from the Chief Executive Officers of the commercial banks and where not available, their appointed representatives with the aid of a semi-structured undisguised questionnaire. The questionnaire was structured in two main sections. The first section captured the background information of the respondents and their respective organizations whereas the second section captured pertinent issues touching on the subject of study.

#### *Data Collection Procedures*

The questionnaire was pre-tested on six randomly selected respondents to enhance effectiveness and hence data validity. The researcher then hand delivered the questionnaires to the CEOs of the sampled commercial banks as they are all located within Nairobi and its environs. A letter of introduction and questionnaire was enclosed in an envelope to be delivered to the respondents. In addition, the researcher made telephone calls to the respective respondents to further explain the purpose of the study and set a time frame for the completion of the questionnaires. Once completed, the researcher personally collected the questionnaires.

### 3.5 Data Analysis and Reporting

The collected data from the questionnaire and other secondary sources was systematically organized in a manner to facilitate analysis. For purposes of the current study, the data pertaining to the profile of respondents was analyzed by employing content analysis. Data pertaining to the objectives of the study was analyzed by employing descriptive statistics. Statistical Package for Social Sciences (SPSS) was used to aid in analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis and is very systematic. Computation of frequencies in tables, charts and bar graphs were used in data presentation. In addition, the researcher used standard deviations and mean scores to present information pertaining to the study objectives. The information was presented and discussed as per the objectives and research questions of the study.

## 4.0 FINDINGS AND DISCUSSIONS

### 4.1 Introduction

This chapter covers the data analysis, presentation and interpretation. The data used was obtained from the questionnaires distributed to the Chief Executive Officers of selected commercial banks in Kenya. The study aimed at investigating the factors influencing participation in corporate social responsibility by commercial banks in Kenya. The main types of statistics used to achieve this objective were mainly descriptive statistics. Out of the 27 questionnaires that were sent out, 24 were returned completed (89 per cent return rate). The high response rate could be attributed to the researcher's efforts in making follow ups of every questionnaire sent out. The information is presented and discussed as per the objectives and research questions of the study.

### 4.2 Profile of respondents

A summary of the responses related to profile of the respondents and their respective organizations is presented in table 4.1 below.

**Table 4.1: Profile of respondents and their respective organizations**

Profile of respondents and their respective organizations	Percentage
<i>Period the banks had operated in Kenya (Years)</i>	
Less than 1 year	0
1 to 5 years	4
6 to 10 years	21
11 to 15 years	25
16 years and above	50
<i>Number of full time employees</i>	
Less than 25	0
26 to 50	4
51 to 75	13
76 to 100	33
101 and above	50
<i>Number of branches</i>	
Less than 5	8
5 to 10 years	17
11 to 20 years	21
21 years and above	54
<i>Period respondent had worked in current organization (Years)</i>	
Less than 1 year	8
1 to 5 years	17
6 to 10 years	33
11 to 15 years	21
16 years and above	21
<b>N = 24</b>	

### 4.3 The factors influencing participation in corporate social responsibility by commercial banks in Kenya

*Corporate social responsibility practices by commercial banks in Kenya*

The researcher sought to establish the corporate social responsibility practices of the commercial banks by listing some of the best practices and asking the respondents to indicate whether their respective organizations adhered to them. The responses are summarized and presented in table 4.2 below.



**Table 4.2: Corporate social responsibility practices**

Corporate social responsibility practices	Responses (%)	
	Yes	No
The organization has a corporate social responsibility policy	58	42
The organization has a specific department/section which coordinates the corporate social responsibility practices	54	46
Corporate social responsibility is considered an important part of the organization culture	75	25
The organization has a budgetary allocation for undertaking corporate social responsibility	33	67
<b>N=24</b>		

It can be concluded that whereas corporate social responsibility is regarded by majority of the banks as being an important part of the organizational culture, the same is not institutionalized within the functions and structures of all the banks. This argument is supported by the lack of policy to guide corporate social responsibility activities and failure to allocate budget for the same by some of the banks.

***Factors influencing participation in corporate social responsibility by commercial banks in Kenya***

In order to meet the first objective of the study, “to analyze the drivers for participation in corporate social responsibility by commercial banks in Kenya”, the respondents were provided with a listing of some of the factors that influence participation in corporate social responsibility by various organizations and asked to indicate the extent to which each of the factors influenced their respective organization’s participation in corporate social responsibility. *Where:* Not at all = (1); Neutral = (2); Somehow = (3); Much = (4); Very much = (5). The responses are summarized and presented in table 4.3 below.

**Table 4.3: Economic factors influencing participation in corporate social responsibility**

Factors influencing participation in corporate social responsibility by commercial banks in Kenya	Mean score	Standard deviation	Ranking
<i>Economic factors influencing participation in corporate social responsibility</i>			
Facilitates reputation and brands	2.589	5.177	
Leads to efficient operations and cost savings	1.190	2.380	
Ability to attract and retain quality employees	1.981	3.962	
<i>Legal factors influencing participation in corporate social responsibility</i>			
Adherence to country Laws and regulations	1.140	2.280	
Dedication to Code of Ethics and Conduct to ensure compliance with best practices	1.475	2.950	
Adherence to timely financial performance returns	1.981	3.962	
Facilitates environmental protection	2.485	4.970	
<i>Ethical factors influencing participation in corporate social responsibility</i>			
Adherence to responsible practices such as accountability, human rights and environmental awareness	2.275	4.550	
Ensuring priced products and services to the customers’ satisfaction	1.747	3.493	
Adherence to ethical marketing	1.754	3.507	
Compliance with disclosure requirements	2.460	4.919	
<i>Philanthropic factors influencing participation in corporate social responsibility</i>			
Ensuring enhanced welfare of the communities through charities and donations	2.275	4.550	
The need to support communities through human disaster relief	1.734	3.467	
The need to give back to society through volunteerism	1.981	3.962	
The need to form collaborations and linkages with community through such partnerships as mobile banking	1.754	3.507	
<b>N = 24</b>			

### ***Specific CSR activities undertaken by commercial banks in Kenya***

In order to meet the second objective of the study, “To evaluate the specific CSR activities undertaken by the commercial banks in Kenya” the respondents were provided with a list of some of the specific CSR activities undertaken by organizations and asked to indicate the extent to which their respective organizations undertook each of the activities. The responses are summarized and presented in table 4.4 below.

**Table 4.3: Specific CSR activities undertaken by commercial banks in Kenya**

Specific CSR activities undertaken by commercial banks in Kenya	Mean score	Standard deviation	Ranking
<i>Specific economic activities undertaken by commercial banks in Kenya</i>			
Provision of enhanced reputation and brands (fulfillment of responsibilities to customers)	2.074	4.147	1
Facilitating efficient operations and cost savings	1.475	2.950	3
Attract and retain quality employees (Ensure a conducive working environment that facilitates balance between work and personal life)	1.747	3.493	2
<i>Specific legal activities undertaken by commercial banks in Kenya</i>			
Enactment of laws and regulations to comply with country laws	1.140	2.280	4
Code of Ethics and Conduct (dedication to performing jobs with an even greater commitment to compliance and ethics)	1.981	3.962	3
Filing timely financial performance returns	2.074	4.147	2
Environmental protection (Resource recycling and waste reduction, provision of litter bins at strategic locations and participation in cleaning exercises)	2.485	4.970	1
<i>Specific ethical activities undertaken by commercial banks in Kenya</i>			
Responsible practices such as Accountability, Human rights and Environmental awareness	1.754	3.507	2
Fair priced products and services	2.275	4.550	1
Ethical marketing (Ensuring stringent standards to supply customers with safe and reliable products,)	1.747	3.493	3
Disclosure (Conducting many investor relations activities in order to supply stakeholders with a broad range of corporate information)	1.388	2.775	4
<i>Specific philanthropic activities undertaken by commercial banks in Kenya</i>			
Charities and donations to community welfare	1.754	3.507	3
Human disaster relief (Assistance for victims of natural disasters)	2.275	4.550	1
Volunteerism	1.140	2.280	4
Community partnerships (mobile banking)	1.981	3.962	2

**Table 4.11: Specific philanthropic activities**

The specific Corporate Social Responsibility activities undertaken ( <i>Philanthropic activities</i> )	Mean score	Standard deviation	Ranking
Charities and donations to community welfare	1.754	3.507	3
Human disaster relief (Assistance for victims of natural disasters)	2.275	4.550	1
Volunteerism	1.140	2.280	4
Community partnerships (mobile banking)	1.981	3.962	2

***N = 24***

### ***The Business case for Corporate Social Responsibility***

In order to meet the third objective of the study, “to assess the business case for corporate social responsibility in commercial banks in Kenya” the respondents were provided with a listing of some of the business related benefits realized by organizations that undertake corporate social responsibility and asked to indicate the extent to which they agreed or disagreed that their respective organizations had realized each of the business related benefits by ticking as appropriate along a five-point scale. *Where:* Strongly disagree = (1); Disagree = (2); Somehow agree = (3); Agree = (4); Strongly agree = (5). The responses are summarized and presented in table 4.9 below.

**Table 4.12: Business case for corporate social responsibility Business case for corporate social responsibility**

Business case for corporate social responsibility	Mean score	Standard deviation	Ranking
Protecting and enhancing reputation, brand equity, and trust	2.632	5.263	1
Attracting, motivating, and retaining talent	1.782	3.564	5
Managing and mitigating risk	1.817	3.633	4
Improving operational and cost efficiency	1.432	2.864	6
Ensuring license to operate	1.084	2.168	7
Developing new business opportunities	2.535	5.070	2
Building stable and prosperous operating environments	2.409	4.817	3
<i>N = 24</i>			

The findings show that the business related benefits realized most as a result of participation in corporate social responsibility by the commercial banks include - protecting and enhancing reputation, brand equity, and trust, and developing new business opportunities, as indicated a mean score of 2.63. The least realized business related benefit was ensuring license to operate, as indicated by a mean score of 1.084.

***Possible recommendations that could be employed by commercial banks to enhance effectiveness of the CSR activities they undertake***

In order to meet the fourth objective of the study, “to examine the possible recommendations that could be employed by commercial banks to enhance effectiveness of the CSR activities they undertake”, the respondents were asked to suggest possible recommendations that could be employed by commercial banks to enhance effectiveness of the CSR activities they undertake. Though the responses varied, they are summarized and presented in table 4.13 below.

**Table 4.13: Possible recommendations that could be employed by commercial banks to enhance effectiveness of the CSR activities commercial banks undertake (Multiple responses were allowed).**

Possible recommendations	Percentage	Ranking
The need to institutionalize policies that guide the function of corporate social responsibility in the organization	83	5
The need to develop procedures manuals to operationalize the CSR activities	96	2
The need allocate adequate budgets to accommodate CSR activities	100	1
The need to assign the corporate social responsibility to a specific department/section for effective implementation of the activities	79	6
The need for top management support for CSR activities	92	4
The need to institutionalize feed back mechanisms, monitoring end evaluation so as to enhance effectiveness of CSR activities	96	2
<i>N = 24</i>		

## 5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

This chapter presents a brief summary of the research findings as well as deriving a conclusion from the study. It also gives recommendations and suggests areas for further research. The study sought to investigate the factors influencing participation in corporate social responsibility by commercial banks in Kenya. The study was guided by the following specific objectives:- to determine the factors influencing participation in corporate social responsibility by commercial banks in Kenya; to identify the specific CSR activities undertaken by the commercial banks in Kenya; to determine the business case for corporate social responsibility in commercial banks in Kenya; and to establish the possible recommendations that could be employed by commercial banks to enhance effectiveness of the CSR activities they undertake.

For purposes of the current study, a descriptive survey was undertaken, focusing on all the 45 commercial banks registered and licensed to undertake commercial banking business in Kenya as at December 2008 and each bank was represented by the CEO. A representative sample of 27 Commercial banks, representing about 60 per cent of the whole population was selected to participate in the study. Primary data was collected with the aid of a semi-structured questionnaire, administered through had delivery. Data pertaining to the profile of respondents was analyzed by employing content analysis while data pertaining to the objectives of the study was analyzed by employing descriptive statistics. Statistical Package for Social Sciences (SPSS) aided in the analysis. Computation of frequencies in tables, charts, bar graphs, mean scores and standard deviations were used in data presentation.

## 5.2 Summary of Findings

The first objective of the study was to determine the factors influencing participation in corporate social responsibility by commercial banks in Kenya. The findings show that the factors influencing participation in CSR by commercial banks are categorized into as follows:

*Economic factors:* Facilitates reputation and brands, Leads to efficient operations and cost savings and Ability to attract and retain quality employees. The findings show that out of the 24 banks that participated in the study, at least 23 of them were influenced to participate in the study by the fact that CSR facilitates reputation and brands, 18 of the banks indicated that they were influenced to participate in corporate social responsibility as it leads to efficient operations and cost savings, while 21 of the banks were influenced by the CSR's ability to attract and retain quality employees.

*Legal factors:* Adherence to country Laws and regulations, Dedication to Code of Ethics and Conduct to ensure compliance with best practices, Adherence to timely financial performance returns, and Facilitates environmental protection. The findings show that out of the 24 banks that participated in the study, 18 of them had been influenced by the need to adhere to country laws and regulations to participate in CSR; 20 banks had been influenced by dedication to code of ethics and conduct to ensure compliance with best practices; 21 of the banks had been influenced by the need to adhere to timely financial performance returns while 21 banks had been influenced by the fact that CSR facilitates environmental protection.

*Ethical factors:* Adherence to responsible practices such as accountability, human rights and environmental awareness, Ensuring priced products and services to the customers' satisfaction, Adherence to ethical marketing, and Compliance with disclosure requirements. The findings show that out of the 24 banks that participated in the study, 23 of them were influenced to participate in CSR by the fact that it facilitates adherence to responsible practices such as accountability, human rights and environmental awareness; 22 of the banks were influenced to participate in corporate social responsibility because of its ability to ensure that products and are priced to the customers' satisfaction. The findings further show that 23 of the banks were influenced by CSR's ability to ensure adherence to ethical marketing and another 23 banks were influenced by CSR's ability to ensure compliance with disclosure requirements.

*Philanthropic factors:* Ensuring enhanced welfare of the communities through charities and donations, the need to support communities through human disaster relief, the need to give back to society through volunteerism and the need to form collaborations and linkages with community through such partnerships as mobile banking. The findings show that out of the 24 banks that participated in the study, 23 of them were influenced to participate in corporate social responsibility since CSR ensures enhanced welfare of communities through charities and donations, 21 banks were influenced by the need to support communities through human disaster relief, 21 of the banks were influenced by the need to give back to society through volunteerism while 23 of the banks were influenced by the need to form collaborations and linkages with community through such partnerships as mobile banking.

The second objective of the study was to identify the specific CSR activities undertaken by the commercial banks in Kenya. The findings show that the specific CSR activities undertaken by commercial banks in Kenya are categorized into four - Economic activities, Legal activities, Ethical activities and philanthropic activities. These are discussed as follows:-

*Specific economic activities:* The findings further indicate that out of the 24 banks that participated in the study, 22 of them undertook provision of enhanced reputation and brands (fulfillment of responsibilities to customers) as a corporate social responsibility activity, 20 of the banks undertook facilitation of efficient operations and cost savings while 22 of them undertook attracting and retain quality employees by ensuring a conducive working environment that facilitates balance between work and personal life as a corporate social responsibility activity.

*Specific legal activities:* The findings further indicate that out of the 24 banks that participated in the study, 18 banks that participated in the study undertake the enactment of laws and regulations to comply with country laws, 21 banks adhere to the code of ethics and conduct and are dedicated to performing jobs with an even greater commitment to compliance and ethics, 22 of the banks undertake the filing of timely financial performance returns, while 21 banks undertake environmental protection, which include resource recycling and waste reduction, provision of litter bins at strategic locations and participation in cleaning exercises.

*Specific ethical activities:* The findings that 23 out of the 24 banks that participated in the study undertook responsible practices such as accountability, human rights and environmental awareness, 23 banks undertook fair pricing of products and services, 22 banks undertook ethical marketing by ensuring stringent standards to supply customers with safe and reliable products, while 20 banks undertook disclosure by conducting many investor relations activities in order to supply stakeholders with a broad range of corporate information.

*Specific philanthropic activities:* The findings show that out of the 24 banks that participated in the study, 23 of them made charities and donations to community welfare, 23 banks contributed to human disaster relief, 18 of the banks participated in volunteerism while 21 of the banks undertook community partnerships.

The third objective of the study was to determine the business case for corporate social responsibility in commercial banks in Kenya. The findings show that the business related benefits realized by commercial banks that undertake corporate social responsibility include protecting and enhancing reputation, brand equity, and trust, as indicated by 23 banks. The findings also indicate that as a result of participation in corporate social responsibility, 21 banks had benefited by attracting, motivating, and retaining talent, 22 banks had benefited by managing and mitigating risk, 20 banks had benefited by improving operational and cost efficiency, 17 banks had benefited by ensuring license to operate, 23 banks had benefited by developing new business opportunities, and 22 banks had benefited by building stable and prosperous operating environments. The findings further show that the business related benefits realized most as a result of participation in corporate social responsibility by the commercial banks include - protecting and enhancing reputation, brand equity, and trust, and developing new business opportunities, as indicated by 23 banks. These were closely followed by managing and mitigating risk and by building stable and prosperous operating environments, as indicated by 22 banks. The least realized business related benefit was ensuring license to operate, as indicated by 17 banks.

The fourth objective of the study was to establish the possible recommendations that could be employed by commercial banks to enhance effectiveness of the CSR activities they undertake. The following were recommended: the need to institutionalize policies that guide the function of corporate social responsibility in the organization; the need to develop procedures manuals to operationalize the CSR activities; the need allocate adequate budgets to accommodate CSR activities; the need to assign the corporate social responsibility to a specific department/section for effective implementation of the activities; the need for top management support for CSR activities; and the need to institutionalize feed back mechanisms, monitoring end evaluation so as to enhance effectiveness of CSR activities

### 5.3 Conclusions

In view of the findings of the study, the following conclusions are drawn-

The rationale for has been articulated in a number of ways. In essence, it is about building sustainable businesses, which need healthy economies, markets and communities. The key drivers for CSR include – *Enlightened self-interest* - creating a synergy of ethics, a cohesive society and a sustainable economy where markets, labor and communities are able to function well together; *Social investment* - contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business; *Transparency and trust* - business has low ratings of trust in public perception. There is increasing expectation that companies will be more open, more accountable and be prepared to report publicly on their performance in social and environmental arenas; and increased *public expectations of business* – companies are expected to do more than merely provide jobs and contribute to the economy through taxes and employment.

The findings of study support the view that stakeholders are taking a broader perspective of corporate responsibility that incorporates not only economic performance, but also environmental and, increasingly, social performance factors. The corporate social responsibility approaches, tools and concepts are becoming increasingly important to organizations who want to maintain or increase their competitiveness in the marketplace.

While the business case may be becoming clearer, implementation of CSR requires more exploration. The drivers for CSR identified by commercial banks in the current study provide important information that will help determine the best approach for the country to take on CSR. However, the study has also illustrated that there is still some variation in what exactly CSR means. Different terms such as sustainable growth, corporate responsibility, and core values are used to describe activities that fall under the scope of CSR, as it is defined in this study. Work is needed to develop a broader understanding of CSR, and perhaps some measure of consensus on the scope of CSR.

This study was an opportunity to solicit views and experiences from commercial banks in Kenya so that decision makers can better understand the drivers, specific CSR activities and benefits of implementing CSR.

### 5.4 Recommendations

In view of the findings and conclusions of the study, the following recommendations are made with a view to enhancing effectiveness of corporate social responsibility programmes:

The Government should take an active role in defining the strategic direction of corporate social responsibilities by organizations. Consequently, the Government has the following potential roles to play:- act as a role model - communicate what government is doing;; clarify what CSR means and expectations; make sense of competing terms and standards; disseminate best practices; help level the playing field, to give leaders competitive advantage (set minimum standards without being prescriptive; enforce regulations); Recognize companies that are leaders in CSR / provide incentives; promote interdepartmental cooperation and coordination - avoid duplication; help brand Kenya as a leader in CSR; Develop and / or support programs that help companies with CSR (roundtables on CSR; partner with organizations already working in this area, help with



developing CSR metrics); Help define the business case for CSR; and Encourage public reporting on economic, social and environmental performance.

Besides the above initiatives by the Government, there is need for the banks themselves to focus on the following:- the need to institutionalize policies that guide the function of corporate social responsibility in the organization; the need to develop procedures manuals to operationalize the CSR activities; the need allocate adequate budgets to accommodate CSR activities; the need to assign the corporate social responsibility to a specific department/section for effective implementation of the activities; the need for top management support for CSR activities; and the need to institutionalize feed back mechanisms, monitoring end evaluation so as to enhance effectiveness of CSR activities

### 5.5 Suggestions for Further Research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested: - (i) While the current study focused on responses from the management of the commercial banks, future studies in corporate social responsibility should seek to determine the impact of corporate social responsibility by focusing on responses from the beneficiaries, who include community members; and (ii) Future studies should seek to establish the nature, extent and adoption profile of corporate social responsibility in other sectors of the economy in Kenya.

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**APPENDIX I: LIST OF COMMERCIAL BANKS AS LISTED IN THE CENTRAL BANK OF KENYA  
COMMERCIAL BANKS DIRECTORY**

**(Peer classification is as per The Banking Survey Kenya 2008 publication)**

<b>No.</b>	<b>Name of Commercial Bank</b>	<b>Peer Ranking</b>
1.	African Banking Corporation Limited	tier 11
2.	Bank of Africa Kenya Ltd	11
3.	Bank of Baroda (K) Ltd	11
4.	Bank of India	11
5.	CFC Bank Ltd	1
6.	Chase Bank	11
7.	Citibank N.A. Kenya	1
8.	Charterhouse Bank	
9.	City Finance Bank Ltd	111
10.	Co-operative Bank of Kenya Ltd	1
11.	Commercial Bank of Africa Ltd	1
12.	Consolidate Bank of Kenya	111
13.	Credit Bank	111
14.	Development Bank of Kenya	111
15.	Diamond Trust Bank Ltd	1
16.	Dubai Bank Kenya Ltd	111
17.	EABS Bank Ltd	11
18.	Equatorial Commercial Bank Ltd	111
19.	Equity Bank	1
20.	Family Bank Ltd	11
21.	Fidelity Commercial Bank Ltd	111
22.	Fina Bank Ltd	11
23.	Giro Commercial Bank Ltd	11
24.	Guardian Bank Ltd	11
25.	Habib Bank A.G. Zurich	11
26.	Habib Bank Ltd	111
27.	Housing Finance Ltd	11
28.	Imperial Bank Ltd	11
29.	Investment & Mortgages Bank Ltd	1
30.	K-Rep Bank Ltd	11
31.	Kenya Commercial Bank Limited	1
32.	Middle East Bank (K) Ltd	111
33.	Barclays Bank of Kenya Ltd	1
34.	National Bank of Kenya Ltd	1
35.	NIC Bank Ltd	1
36.	Oriental Commercial Bank Ltd	111
37.	Paramount Universal Bank Ltd	111
38.	Prime Bank Ltd	11
39.	Prime Capital and Credit Finance Ltd	111
40.	Savings and Loan (K) Ltd	
41.	Southern Credit Banking Corporation Ltd	11
42.	Stanbic Bank Kenya Ltd	1
43.	Standard Chartered Bank (K) Ltd	1
44.	Transnational Bank Ltd	111
45.	Victoria Commercial Bank Ltd	111

**Source: Central Bank of Kenya (CBK) (2008)**

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